Video Transcript

HSBC Investment Outlook – July 2025 Monthly View
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As we are recording this video, a cease fire between Israel and Iran has started. Investors everywhere breathe a sigh of relief and markets have retraced most of the moves that we saw over the past two weeks Now we make three observations about the market reaction during the conflict.

Firstly, while oil prices of course have spiked significantly, the hit to risk appetite for other asset classes was relatively mild, as investors were already cautious and dealing with a wall of worries.

Secondly, diversification worked. Bonds and gold benefited from safe haven flows while equities fell, and correlations turned sharply negative. Even the US dollar saw some upside, illustrating that in spite of the deficit concerns and questions about US exceptionalism ending, the US dollar and US Treasuries still remain essential in times of stress.

And lastly, geopolitical events are near impossible to forecast. Most specialists were surprised by at least one or two of the twists and turns in the conflict. So, given that geopolitics and policymaking remain erratic, it's essential to build resilient portfolios.

So we continue to do this through our multi-asset diversification, an active approach to investing and a focus on quality assets. Long-term thematics also help, as illustrated by the relative resilience in technology and AI related stocks during the conflict.

Now, what lies ahead?

If the ceasefire holds, we think that the market's attention will turn back to mostly familiar topics. The imminent US earnings season is key, because CEOs can give us more up-to-date information about what's going on than the backward looking economic data do.

Now, analysts expect a mild contraction in earnings this quarter, so the bar is low, and we think companies will exceed it. Keep in mind that USD weakness should also boost earnings. Concerns about the debt pile may come back, but Treasury yields are now well below the 'danger zone' of near 4.7% where US Treasury yields tend to cause issues for equities. Inflation has also been somewhat below expectations, so we think that the market is right to continue to expect two rate cuts this year, which is of course supportive for markets.

And lastly, in China, retail sales growth continues to tick up and now stands at 6.4%, thanks to government stimulus and money supply growth. Investors are optimistic about Chinese tech, and if consumption can continue to gradually improve, that is, of course, another positive for Chinese stocks.

So in summary, we are encouraged by the relative resilience in markets during the conflict. And coupled with low consensus expectations, weak investor sentiment and positioning, and relatively healthy data, we think that there are good reasons to continue to move into well-diversified portfolios.